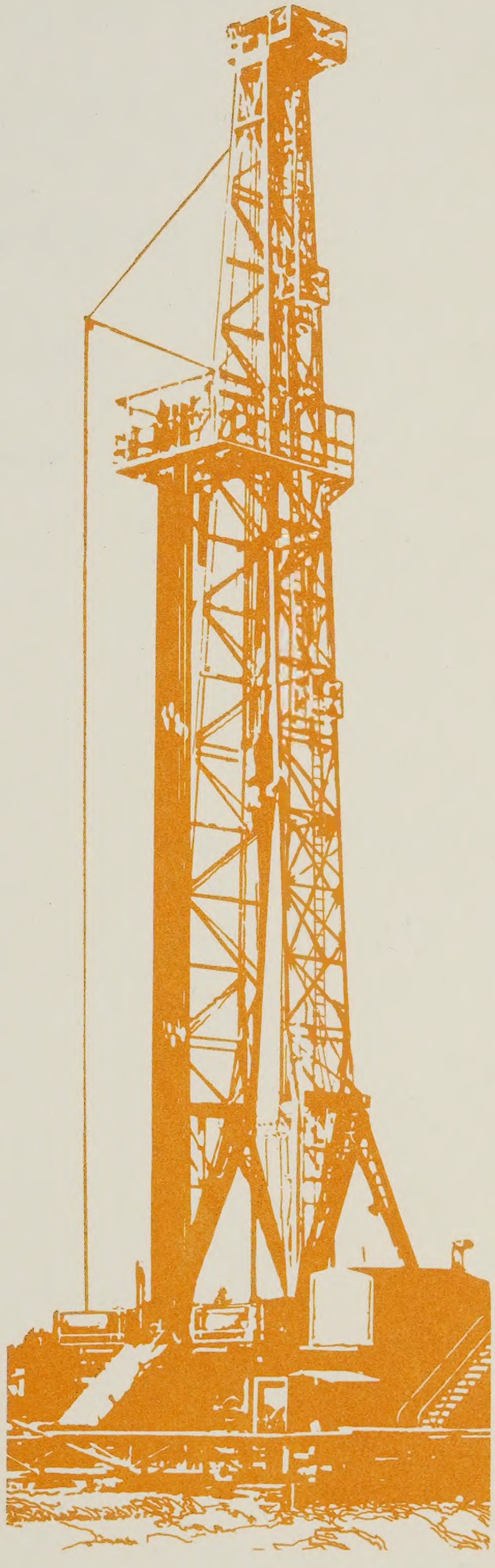
1968 ANNUAL REPORT



ALMINEX
LIMITED

ALMINEX LIMITED

Head Office
SUITE 1506, 44 KING STREET WEST, TORONTO

Calgary Office
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Tenth Annual Report
December 31
1968

DIRECTORS

F. R. BURTON	TORONTO
D. R. DELAPORTE	TORONTO
H. J. FRASER*	TORONTO
W. F. JAMES	TORONTO
J. N. STEPHEN	CALGARY
J. B. WEBB	CALGARY

*died February 2, 1969

OFFICERS

F. R. BURTON	PRESIDENT
W. F. JAMES	VICE-PRESIDENT
J. N. STEPHEN	VICE-PRESIDENT AND GENERAL MANAGER
P. H. POWERS	TREASURER
D. G. C. MENZEL	SECRETARY

TRANSFER AGENT AND REGISTRAR
CROWN TRUST COMPANY
MONTREAL, TORONTO AND CALGARY

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AUDITORS
THORNE, GUNN, HELLIWELL & CHRISTENSON

Five Year Summary

	1968	1967	1966	1965	1964
FINANCIAL					
Gross Production (after royalty)	$ 4,713,879	$ 4,397,132	$ 3,802,247	$ 3,635,583	$ 3,137,220
Net Production Income (after operating costs)	4,176,554	3,877,246	3,332,191	3,237,582	2,763,933
Administrative and General Expense	150,360	152,851	145,863	135,936	131,809
Interest Expense	96,075	129,399	142,114	135,691	156,303
*Exploration Expense	1,217,884	1,074,540	749,111	623,341	641,956
Depletion, Depreciation and Write-offs	1,242,889	1,280,081	1,072,420	973,734	970,495
Cash Earnings after all cash expenses	2,735,134	2,530,494	2,295,103	2,342,614	1,833,865
Net Income	747,245	917,118	1,222,683	1,385,445	863,370
Bank Loans Outstanding	734,000	1,812,000	2,426,000	2,390,000	2,528,000
OPERATING					
Net Daily Production:					
Oil and Condensate (barrels)	3,762	3,446	3,199	3,025	2,603
Natural Gas (thousands of cubic feet)	13,900	13,400	14,047	14,523	12,704
Reserves — Net Proven:					
Crude Oil (barrels)	39,280,000	40,440,000	41,140,000	41,670,000	37,036,000
Natural Gas Liquids (barrels)	4,280,000	4,500,000	4,560,000	3,470,000	2,700,000
Natural Gas (billions of cubic feet)	160.39	145.96	149.25	148.06	138.08
Sulphur (long tons)	237,000	244,000	290,000	272,000	181,000
Net Acreage	6,947,635	2,707,183	2,691,002	716,527	679,122

*Includes exploration drilling, dry hole costs, geological, geophysical and unproven property expense.

ALMINEX LIMITED

Report of the Directors

TO THE SHAREHOLDERS:

Your Directors are pleased to present their report for the year ended December 31, 1968, together with notes on operations and developments on your Company's properties during the past year.

THE COMPANY

FINANCIAL

Compared to 1967 Alminex's 1968 gross revenue after royalties rose 7.5% to $4,736,778. Net production income after operating expenses increased 7.7% over the previous year to $4,176,554. Net cash income, after deducting administrative and general expense of $150,360, interest charges of $96,075 and exploration costs of $1,217,884 was $2,735,134, an increase of 8.1%. Your Company's net income from operations was $747,245 in 1968, a decrease of 18.5% from 1967, due largely to higher provisions for depletion and income tax. Dividends of $917,299, or 12¢ per share, were paid to the shareholders.

Capital expenditures totalled $407,857 of which $145,676 was on development, $19,882 on plant facilities, $212,746 on production and other equipment and $29,553 on land acquisitions. Loans outstanding at December 31, 1968, amounted to $734,000, a substantial reduction from $1,812,000 at the end of 1967.

PRODUCTION

Alminex's production of crude oil plus natural gas liquids (NGL) for 1968, after royalty, averaged 3,762 barrels per day, an increase of 9.2% over 1967. Production during December averaged 4,105 bbls./day, a record for your Company. Crude oil produced totalled 1,153,084 barrels, up 7.7% over the previous year, and NGL was 223,590 barrels, an increase of 19.2%. NGL production at the Carstairs gas processing plant was substantially higher due to the full year's operation of the new facilities completed in June, 1967, for additional recovery of propane and butane. Fractional increases or decreases in production occurred at a number of oil fields, but higher allowables and the make up of prior under-production at Swan Hills contributed most to your Company's higher production of crude oil during 1968.

Your Company's average daily production of natural gas, after royalty, was 13.9 MMcf (million cubic feet) during 1968, an increase of 3.7% over 1967. Total gas production was 5,073 MMcf, 4.0% over the previous year. Production at the Braeburn field in northern Alberta was sharply lower due mainly to declining deliverability but partly to a mechanical failure in the gas processing plant in December. Lower production at this field and at Bindloss, Retlaw and Atlee-Buffalo was more than offset by increases at Pendor, Carstairs, Harmattan Leduc and Swan Hills and at West Provost where Alminex's increased production reflected the purchase of an additional interest in the Unit in July, 1967. On November 1, 1969, Trans-Canada Pipe Lines Limited will increase its rate of production from a number of your Company's gas fields and for the first time will take gas from Marten Hills and Whitecourt. While Alminex's gas production is expected to be higher in 1969, the full impact of these developments will not be felt until 1970.

Your Company's sulphur production increased from an average of 22 long tons per day in 1967 to 26 long tons in 1968. Total production rose 18.3% to 9,680 long tons, but because of increased domestic and foreign competition during 1968 sulphur sales have weakened and prices have softened.

Comparative figures for oil, NGL, natural gas and sulphur production, by fields, are shown in the tables at the end of the report.

RESERVES

Alminex's proven reserves of crude oil and natural gas liquids, as of December 31, 1968, after deducting the year's production of 1,376,674 barrels were 43,560,000 barrels, a decrease of 3.1% during the past year. The ineffectiveness of the waterflood at Crossfield Cardium caused a downward revision in reserve estimates, and exploration and development operations added only small reserves at Mitsue and House Mountain. Proven reserves of gas, after providing for 1968 production, were 160 billion cubic feet (Bcf), an increase of 9.9% during the year. The substantial increase in reserves at Marten Hills and Whitecourt more than offset the decrease in reserves at Braeburn. Proven sulphur reserves were 237,000 long tons, a decrease of 2.9% over 1967 due entirely to the year's production.

EXPLORATION

Alminex's exploration expenditures in 1968 were higher than in the previous year. Extensive seismic programs at Hutton and Meander River in Alberta, Datcin in northeastern British Columbia, and North Cameron Hills in the Northwest Territories formed a substantial part of these costs. During 1968 Alminex participated in drilling 14 exploratory wells, of which 12 were dry holes, and two were gas discoveries. These discoveries were both located in central Alberta at Whitecourt and Mitsue. While the Mitsue find is in the shallow Cretaceous sands and likely small, the Whitecourt discovery is of greater significance. Seven wells were drilled by farmees on Company land which resulted in three oil discoveries and four dry holes. All of the discoveries extended existing oil fields: Willey in Ontario, and Edson Cardium and Mitsue, both in central Alberta. Alminex retained a net profit interest or overriding royalty in production from the farm-out lands.

DEVELOPMENT

Your Company participated in drilling 13 development wells during 1968 and four additional wells were drilled on Company lands by farmees. Of those drilled by the Company two oil wells and 10 gas wells were completed and one was a dry hole. The farmees' wells resulted in one dry hole, one oil well, and two gas wells, one of which offsets the Mitsue field and discovered gas in the Gilwood sand (Devonian) which is normally the oil reservoir.

The large Mitsue field was unitized in 1968 and a waterflood put into operation. Under the stimulus of flooding ultimate oil recovery is expected to reach 290 million barrels, or 48% of the oil in place, more than double primary estimates.

OUTLOOK

In 1969 Alminex will maintain an aggressive exploration program. While several seismic programs will be undertaken it is expected that less will be spent on geophysics and more on exploratory drilling and land acquisition. The two most interesting wells are those planned for the North Sea where Alminex (U.K.) Limited, a wholly-owned subsidiary, owns a 25% interest in two licences totalling 748,284 acres, divided into eastern and western blocks. One test well to the top of the Carboniferous will be drilled on each block. Falconbridge Nickel Mines Limited can earn a 50% interest in Alminex (U.K.) Limited by bearing the cost of drilling these wells.

In 1966 Alminex filed on 47 permits totalling 1,986,823 acres in the Arctic Islands which were farmed out to Panarctic Oils Ltd. During 1968 and early 1969, following the discovery of oil at Prudhoe Bay, Alaska, your Company filed on 93 permits totalling 5,328,301 acres in the Arctic Islands. All of these lands and the locations of the first two wells which Panarctic Oils has announced it will drill in the first half of 1969 are shown on the map following this report.

In the same period, Alminex also filed on 13 permits totalling 474,526 acres located on the mainland, in the Yukon and Northwest Territories, and a 50% interest was acquired in five permits totalling 184,128 acres located in the Yukon Territory. Three of these five permits totalling 130,892 acres have been farmed out. The reported magnitude of the oil success at Prudhoe Bay has spurred the exploration of the enormous sedimentary basin present in Alaska and northern Canada and your Company expects to benefit through its large landholdings.

During 1969 the major part of a higher development and plant construction budget will be spent to increase gas production. Mainly because of the completion in 1968 of the Great Lakes Gas Transmission Company's pipe line and the resulting increased demands of Trans-Canada, development wells will be drilled at Bindloss, West Provost, Carstairs, Whitecourt and Marten Hills. Plans to construct processing plants at Mitsue, where the solution gas produced with the oil will be gathered, and at Marten Hills and Whitecourt are well advanced and the plants are expected to go on production November 1, 1969. The full financial effect of these developments will not be felt until 1970.

Your Company expects crude oil, NGL and gas production to increase moderately in 1969 with an accompanying gain in revenue. Sulphur production was close to capacity in 1968 and sulphur sales which have weakened in recent months may decline from the previous year.

In May, 1968, Mr. J. B. Webb retired as Vice-President and General Manager of the Company and was succeeded by Mr. J. N. Stephen who was also elected a Director. Mr. Webb has agreed to remain as a Director of and Consultant to the Company.

Your Directors again wish to record their great appreciation of the loyal and competent services rendered by all members of the staff.

Your Directors and the staff of the Company were deeply grieved by the death last month of Dr. H. J. Fraser, who both individually and as President of your Company's controlling shareholder was a continual source of encouragement and support.

THE INDUSTRY

In 1968 the Canadian oil and gas industry continued the growth trend of previous years. The average daily production of crude oil and NGL was 1,188,714 barrels, an increase of 7.2% over 1967. Most of this increase benefitted Alberta producers as Saskatchewan production has declined since 1967. Despite the reduced demand in United States markets during the last quarter of the year, average daily exports during 1968 were 499,755 barrels, up 11.2% over the previous year. Markets in Districts I to IV which include the eastern and midwestern areas of the United States provided all of the increase consuming a daily average of 325,050 barrels of Canadian oil, up 28.4% over 1967. In contrast, District V, which includes the United States west coast, took a daily average of 174,705 barrels in 1968, a decline of 21,500 bbls./day or 10.9%. This reduced market for Canadian crude results from increased California production and the growing volume of oil from Cook Inlet in Alaska. Over the near term, District V can be expected to remain a substantial market for Canadian oil, but there is mounting evidence that production from Alaska's Prudhoe Bay discovery will be used to satisfy the requirements of this area. It has been reported that a pipe line will be constructed across Alaska from the North Slope to the port of Valdez on the south coast with an ultimate through-put of two million bbls./day.

The importance of the export market to the industry's growth is made most obvious by analyzing domestic Canadian requirements. British Columbia consumption of petroleum in 1968 increased 4.7%; there was no significant increase on the Prairies; Ontario consumption increased 4.9%, and in the Maritimes and Quebec consumption jumped 8.8%. On the average, Canadian consumption increased 5.8% during 1968, but Canadian production of oil and NGL used in domestic markets averaged 682,959 bbls./day, up only 4.5%. The rapidly growing refining capacity in Quebec and the Maritimes which remains beyond the present reach of domestic production, and consumes only foreign oil, is of increasing concern to the Canadian oil industry.

Daily average production of raw natural gas in 1968 increased to 4,734 MMcf, 11.9% over 1967. In the same period gas sales increased to a daily average of 3,540 MMcf, up 13.2%. The Canadian market consumed a daily average of 1,840 MMcf, an increase of 6.9%, and the United States market a daily average of 1,700 MMcf, up 20.9% over the previous year. Because of two failures in the recently completed Great Lakes pipe line it is currently operating at reduced capacity, but any deficiency should soon be remedied and the demands of eastern Canada met with Canadian production. A number of substantial gas discoveries have been made in Alberta: Kaybob South, Quirk Creek, Strachan and Marten Hills, which ensure adequate supplies as gas markets expand, but as some are wet gas fields the volume of NGL which will be extracted will create marketing problems and an increasing source of competition for oil.

Canada now ranks second in sulphur production in the Free World. During 1968 production increased to 2.9 million long tons, an increase of 800,000 long tons or 38.1% over 1967, but the world's supply is now surplus to demand, reversing a five-year trend. Softening prices and reduced sales are the immediate prospect. Sulphur sales are made largely to export markets. Domestic consumption was only 590,000 long tons in 1968 and demand during the period 1965 to 1968 has grown by only 1.4% annually. Competition for all markets will become increasingly keen as new sources of supply, Canadian as well as foreign, come into production.

The discovery of oil at Prudhoe Bay has made an indelible impression on the Canadian scene. There is concern for markets and for this reason approval to proceed with Syncrude Canada Ltd.'s submission to extract oil from the Athabasca Tar Sands has been deferred until the impact of Prudhoe Bay on oil markets could be studied. There is no doubt that there will be market dislocation, particularly in District V, but Alminex believes that the gap between consumption and oil production in the United States will continue to widen and, together with domestic demand, will provide Alberta with a market which will grow at an average rate of 7% annually into the 1980's. The completion in 1968 of Interprovincial Pipe Line Company's new loop from Superior, Wisconsin, to Griffith, Indiana, provides access to the important Chicago market. A 30-inch pipe line from Chicago to Sarnia, completing the program, will be constructed in 1969. Although Canadian oil is lower priced, Interprovincial will not be without competition in the Chicago area; Capline, a 40-inch pipe line, was completed from Louisiana to Patoka in southern Illinois in 1968 and at the year-end was transporting 300,000 bbls./day. The connecting link from Patoka to Chicago, the 26-inch Chicap Pipe Line, was also completed in 1968.

In summary, although there are areas of concern, the future for Canadian oil and gas producers appears promising. Sales of crude oil, natural gas and NGL are expected to continue their growth trend, but sulphur sales will encounter increasing competition and softening prices. Prudhoe Bay will disrupt Canadian sales of oil to the United States west coast, but this discovery has also shown the productive potential of the enormous sedimentary basin which extends north from the Prairies to

Alaska and the Arctic Islands. Panarctic Oils Ltd. will begin its first two well locations early in 1969 and other companies have announced exploration plans in other parts of Arctic Canada. Alminex, with its substantial acreage position in the North, stands to benefit from this activity.

On behalf of the Directors,

F. R. Burton

President

J. A. Stephen

Vice-President and General Manager

Toronto, Ontario
March 17, 1969

Notes on Operations

EXPLORATION

Ontario

Alminex has a 5.5% interest in the net profits of IOE Atlas Dunwich 5-23-IV which discovered Cambrian oil on lands farmed out to Imperial Oil Enterprises Limited and Atlas Oil & Gas Ltd. This discovery is located in Dunwich Township and is likely an extension to the Willey oil field, a short distance to the northwest, where Alminex also has production. Alminex participated 10% in IOE et al Dunwich 1-8-23-IV, a shallow test to the Columbus sand (Devonian). This reservoir had given up a show of gas in a nearby well, but the test was dry and abandoned.

Saskatchewan

In the Milestone area Alminex has a 16⅔% interest in 71,340 acres comprising P. & N.G. Permit No. 1912 and related leases. Cdn.-Sup et al Milestone 13-14-13-20 W2M, a deep test to the Winnipeg sand (Ordovician), was located on the permit but numerous porous reservoirs proved to be water-wet and the well was abandoned.

Southern Alberta

Alminex joined in farming out the acreage on which Maycom Home et al Princess 10-15-19-10 W4M, a shallow Cretaceous test, was drilled and abandoned.

Central Alberta

Following an extensive seismic program, Alminex participated 30% in two farm-ins in the Hutton area. In the first farm-in the farmees earned a 50% interest in 2,560 lease acres in return for a test to the Cambrian. This well, CEGO et al Hutton 7-1-25-14 W4M, was unsuccessful. The second farm-in was located southwest of the first. Under its terms a Cambrian test earned the farmees a 50% interest in 12,800 lease acres with the option to continue drilling until a 50% interest was earned in 87,292 acres. CEGO et al Hutton 7-5-25-15 W4M was drilled on this farm-in and while it was dry, sufficient interest was created to exercise the option and to plan for the drilling of a second well early in 1969.

Alminex participated 6.75% in the drilling of the deep test, H.B. et al West. Ho 7-13-33-5 W5M. The Company shares in considerable lease acreage in the area and the well was drilled to find sour gas production similar to that present in the Harmattan Leduc field six miles to the southeast. However, the Leduc reservoir (Devonian) had only poor, water-wet porosity and the well was abandoned. The Company had a small interest, 6.25%, in another deep test, Mobil et al Wolf 11-33-51-16 W5M. The principal objective was the Beaverhill Lake formation (Devonian), and although this unit was non-productive and the well abandoned, it exhibited good porosity and an offsetting drilling reservation was purchased from the Crown. A 50% interest in this reservation was subsequently farmed out for a well to be drilled in 1969. Joe Phillips Edson 12-27-52-16 W5M, succeeded in extending the Edson Cardium oil field. Alminex joined in farming out the acreage on which the well was drilled and retained a 12.5% interest in an overriding royalty which will vary between 5% and 15%, depending upon its rate of production.

The Whitecourt area saw considerable activity in 1968 as gas sales to Trans-Canada Pipe Lines Limited are scheduled to begin November 1, 1969. Alminex participated in Home et al Whitecourt 10-13-59-12 W5M, which discovered gas in the Nordegg sand (Jurassic). The Company has a 12.5% interest in this well's production and the same interest in the 4,800 acre lease block containing the discovery. There is additional lease land immediately to the north in which Alminex has small interests, 5.625% or 6.25%, some of which is already capable of production or under development. To the south of the discovery the Company has a 25% interest in P. & N.G. Reservation No. 1264, totalling 33,760 acres. Some seismic coverage was obtained during the year and additional shooting is planned for 1969.

Alminex retained a 25% interest in an overriding royalty which will vary between 5% and 15%, depending upon the rate of production, on the farm-out acreage on which Berk. Home et al Mitsue 8-9-69-3 W5M, an oil discovery, was located. This well extended the Mitsue oil field, which produces from the Gilwood sand (Devonian), and it was followed up by a successful development well which will be discussed under that heading.

Alminex participated 12.5% in drilling Berk. Home et al Mitsue A2-19G-71-3 W5M on the east side of the Mitsue field. It failed to find the oil reservoir, but discovered gas in several thin Blairmore sands (Cretaceous). Reserves are unlikely to be large, but a market for the solution gas produced with Mitsue's oil will be available in November, 1969, and the discovery may also be produced.

Northern Alberta

Texcan Carcajou 10-24-100-18 W5M and Sun et al Kemp 4-28-101-21 W5M were both located on acreage Alminex farmed out. Both were situated in the Keg River area and both had as their primary objectives the Slave Point and Manning sand formations (Devonian), but neither was successful. Drilling in the general Meander River area, located between 50 and 75 miles northeast of the Rainbow oil field, has been disappointing. In equal partnership with Home Oil Company Limited, Alminex drilled Home ALMX et al Meander 5-25-113-16

W5M to the Precambrian. The Keg River and Slave Point formations (Devonian) were unproductive, but the Company earned a 25% interest in the farm-in lands which total 111,360 reservation acres. The plan to drill a second well early in 1968, Home Alminex Melvin 10-17-115-23 W5M, on P. & N.G. Reservation No. 815, owned equally with Home was postponed because of an early spring break-up, but the well was subsequently spudded in December, 1968. Still another well will be drilled in early 1969; Home ALMX et al Caribou 7-28-116-15 W5M will be located on P. & N.G. Reservation No. 564 on the extreme east side of Alminex's holdings in the Meander area. This reservation is a farm-in and Alminex will earn a 25% interest in 99,840 acres for paying 50% of the cost of drilling the well to the Precambrian.

British Columbia

Alminex joined in farming out certain Gutah lease blocks for a deep test of the Keg River formation (Devonian). After completing a seismic program the well Cdn.-Sup. et al Gutah a-97-G 94-H-14 was drilled and abandoned early in 1968 and all the leases in the area were subsequently dropped rather than pay higher rentals.

Northwest Territories

Alminex participated to the extent of 5% in drilling two wells, Dome Pan Am ALMX CSP Celibeta C-77 and Dome Pan Am ALMX CSP Island River E-56, located in the southwest corner of the Northwest Territories, adjacent to the Yukon and British Columbia. Both wells were drilled below the Devonian and both failed to find production and were abandoned.

Canso et al North Cameron Hills #1 was located just north of the Alberta border on Permit No. 4587, comprising 63,854 acres. A comprehensive seismic program was carried out on the permit, but the well was abandoned in the Precambrian. Alminex paid 25% of its cost and earned a 12½% interest in one-half of the permit. A second test on the same acreage planned for 1969 will earn the same interest in the remainder.

Much further north at the confluence of the Peel and Snake Rivers in the northern Yukon, Alminex has a 50% interest in Permits Nos. 5713-5715 totalling 130,892 acres, acquired by filing in April, 1968. These lands were farmed out to Midalta Oil Company Limited who were drilling their earning well, a test of the Silurian carbonates, at the year-end.

North Sea

Alminex, through its wholly-owned subsidiary, Alminex (U.K.) Limited, owns a 25% interest in two licences totalling 748,284 acres which are divided into eastern and western blocks. A third licence of 18,874 acres, was dropped in 1968 when an offsetting well which evaluated the acreage was abandoned. An extensive program of seismic has been conducted and two exploratory locations, one on each block, have been chosen. These are expected to be drilled in 1969 by the semi-submersible drilling platform, Ocean Traveler, and pursuant to an agreement entered into in 1966, Falconbridge Nickel Mines Limited can earn a 50% share interest in Alminex (U.K.) by bearing the Company's 25% participation in the cost of drilling these wells.

Yukon and Northwest Territories

In 1968 Alminex participated to 50% on five permits totalling 184,128 acres in the Yukon Territory, a part of which was farmed out to Midalta as described earlier in this report. During 1968 and early 1969 the Company filed on 474,526 acres in 13 permits located at Old Crow in the Yukon and at a number of localities on the mainland portion of the Northwest Territories. During the same period, Alminex filed on 93 permits containing 5,328,301 acres located mostly on Victoria and Stefansson Islands in the southwestern part of the Arctic Archipelago. Other smaller scattered blocks of acreage are located on Banks, Devon, and other Arctic Islands. These filings were in addition to the 47 permits totalling 1,986,823 acres acquired in 1966 and farmed out to Panarctic Oils Ltd. During 1968 the rush for acreage in the Canadian Arctic, following the Prudhoe Bay oil discovery in Alaska, was accelerated, so much so that little potential acreage on land or water remains open. The Arctic exhibits considerable geological promise for oil production, but the area's problems remain largely unresolved.

DEVELOPMENT

Pendor (Alminex interest 15%)

Because of water incursion the productivity of existing wells in this field has declined. To overcome this problem Home CMG Pendor 10-7-3-8 W4M was drilled and completed in the Basal Quartz reservoir (Cretaceous) on the south edge of the field.

Retlaw (Alminex interest 1.875% ORR)

Alminex joined in making two farm-outs to Duncan Oil, Limited on the southeast edge of the Retlaw gas field. Each required a Mississippian test. The first, Duncan Retlaw 11-32-12-18 W4M, was dry and abandoned. The second, Duncan Retlaw 11-4-13-18 W4M, was completed as a poor gas producer in the Glauconitic sand (Cretaceous).

West Provost Unit (Alminex interest 6.7%)

The unit drilled three wells to increase lagging gas productivity, Spooner Provost 10-4-35-8 W4M,

Dalex Provost 6-34-35-8 W4M, and Dalex Provost 6-6-36-7 W4M. Spooner Provost 10-4 is not yet hooked-up, but the other wells are contributing to production. However, additional productivity is required to meet the increased demand of Trans-Canada on November 1, 1969, and the unit is proposing to drill three additional wells prior to that date.

Sylvan Lake (Alminex interest 6.25%)

Fina Home SyLake 10-4-38-2 W5M, located within the Sylvan Lake gas field, was abandoned after failing to find production in the Cretaceous and Mississippian reservoirs.

Medicine River (Alminex interest 12.5%)

Northwest of this field, HB et al Medicine R. 10-18-39-4 W5M was drilled and completed in the Glauconitic sand (Cretaceous) oil reservoir. Negotiations are in progress to unitize this field and implement water flooding in 1969 in order to improve oil recovery.

Harmattan Leduc Unit (Alminex interest 4.49%)

Cdn.-Sup. HW Bass Harm. 10-9L-32-4 W5M was completed in the Leduc reservoir (Devonian), but has proven a poor producer. This field lacks surplus productivity and an additional development well is planned for 1969.

Whitecourt (Alminex interest 5.625%)

One development well, Home Whitecourt 6-6-60-11 W5M, was drilled in this field. It was completed as a gas well in the Pekisko formation (Mississippian). Pacific Petroleums Ltd. is planning to build a processing plant to meet the needs of this developing gas area and during 1969 Alminex will be participating in additional wells. Production to Trans-Canada is scheduled to begin November 1, 1969.

Mitsue Non-Unit

Berk. Home et al Mitsue 6-16-69-3 W5M followed the oil discovery in 8-9-69-3 W5M, and was located on lands farmed out by Alminex. The well was a successful oil completion and the Company has a 25% interest in a sliding scale (5% - 15%) overriding royalty on production. Two further development wells were located on the east side of this field. The first well, Whitehall et al Mitsue 12-29-71-3 W5M was also located on lands which Alminex farmed out. It failed to find oil production, but the Gilwood sand (Devonian) contained gas, and the well is presently suspended. Alminex retained a 25% interest in a 15% overriding royalty. The second well, Berk. Home et al Mitsue 12-18-71-3 W5M, in which the Company participated 12.5%, was completed as an oil well.

UNITIZED PROPERTIES & PLANTS

Harmattan Leduc Unit (Alminex interest 4.49%)

The Company's share in sulphur production from this unit increased to 8,086 long tons in 1968, an increase of 4.5% over 1967. Production was interrupted only for normal plant maintenance and one short period because of mechanical failure, otherwise operations were close to capacity.

Mitsue Unit (Alminex interest 1.016%)

Unitization of this large Gilwood sand oil field was completed in May, 1968, and waterflooding began the same month. Primary recovery was estimated at 23%, but waterflooding is expected to increase the amount of oil ultimately produced from the reservoir to 48% or approximately 290 million barrels. In September, 1968, the Oil and Gas Conservation Board recognized the initial effectiveness of the flood and permitted an increase in allowable. As a result of this increase and additional wells drilled in 1968, Alminex's production is expected to rise in 1969.

1968 DRILLING RECORD

EXPLORATORY WELLS COMPLETED (Gross)

	DRY HOLES	OIL DISC.	GAS DISC.
Ontario	1	1	—
Saskatchewan	1	—	—
Alberta: Southern	1	—	—
Central	4	2	2
Northern	5	—	—
British Columbia	1	—	—
Northwest Territories	3	—	—
Yukon	—	—	—
	16	3	2

DEVELOPMENT WELLS COMPLETED (Gross)

	DRY HOLES	OIL WELLS	GAS WELLS
Alberta:			
Bindloss	—	—	4
Pendant D'Oreille	—	—	1
Retlaw	1	—	1
West Provost	—	—	3
Sylvan Lake	1	—	—
Medicine River	—	1	—
Whitecourt	—	—	1
Mitsue	—	2	1
Harmattan Leduc	—	—	1
	2	3	12

ALMINEX LIMITED


80°
AXEL
HEIBERG
ISLAND
IGNES
ISLAND
ELLESMERE ISLAND
BAFFIN BAY
75°
DEVON ISLAND
CORNWALLIS
ISLAND
SOMERSET
ISLAND
70°
BAFFIN ISLAND
80°
90°

Reserves

In the following table are shown the Company's estimated proven and probable reserves of oil, natural gas liquids and sulphur as of December 31, 1968 and for comparison those of December 31, 1967:

	Dec. 31, 1968	Dec. 31, 1967
CRUDE OIL RESERVES (Millions of Barrels)		
Proven Reserves	39.28	40.44
Probable Reserves	6.87	7.25
NATURAL GAS LIQUIDS (Millions of Barrels)		
Proven Reserves	4.28	4.50
Probable Reserves	1.25	1.19
NATURAL GAS (Billions of Cubic Feet)		
Proven Reserves	160.39	145.96
Probable Reserves	10.54	16.84
SULPHUR (Thousands of Long Tons)		
Proven Reserves	237	244
Probable Reserves	15	15

During 1968 the exploration and development program added new proven and probable oil reserves at Mitsue. As a result of unitization, reserves were increased at House Mountain, but the obvious ineffectiveness of the waterflood at Crossfield Cardium required this field's reserves to be adjusted downward. After deducting the year's production, proven oil reserves decreased by 2.9% from 1967. Proven reserves of natural gas, after providing for 1968 production, increased 9.9% over the previous year. Substantial additional reserves at Whitecourt and Marten Hills more than offset a reduction at Braeburn brought about by encroaching water. Probable reserves, however, showed a decline due largely to a transfer of gas from the probable to proven category at Marten Hills. Proven reserves of NGL decreased by 4.9%, the amount of 1968 production. A small increase in probable reserves occurred at Mitsue where it is planned to gather and process solution gas in 1969. During 1968 there were no additions to the reserves of proven and probable sulphur and after deducting the year's production proven reserves showed a 2.9% decrease from 1967.

The following table summarizes Alminex Limited land holdings under reservation and lease categories as to gross and net acres including those of its wholly owned subsidiary, Alminex (U.K.) Limited, as of December 31, 1968:—

	Reservations		Leases		Totals	
	Gross	Net	Gross	Net	Gross	Net
Alberta	340,063	92,391	1,309,190	243,308	1,649,253	335,699
Saskatchewan and Manitoba	214,080	59,679	135,943	34,649	350,023	94,328
British Columbia	—	—	78,182	5,981	78,182	5,981
Ontario	—	—	37,149	7,272	37,149	7,272
Yukon and N.W.T.	630,339	333,425	221,636	42,752	851,975	376,177
Arctic Islands	7,066,980	5,941,107	—	—	7,066,980	5,941,107
North Sea—Alminex (U.K.)	748,284	187,071	—	—	748,284	187,071
	8,999,746	6,613,673	1,782,100	333,962	10,781,846	6,947,635

The large increase in gross and net acreage is due to the acquisition of additional Arctic Islands and N.W.T. Permits totalling in excess of five million acres.

Producing Interests:

OIL

UNITIZED FIELDS

Alberta	UNIT INTEREST %	PRODUCTION 1968 (Barrels—after royalty)	PRODUCTION 1967 (Barrels—after royalty)
Swan Hills Unit #1	4.59	530,887	443,036
Inverness Unit #1	7.02	149,097	145,700
Virginia Hills Unit #1	3.55	125,560	129,573
Harmattan-Elkton Unit #1	8.81	108,112	113,702
Mitsue Gilwood Sand Unit #1	1.02	52,965	—
Westward Ho Unit #1	7.65	25,309	26,299
North Pembina Cardium Unit #1	0.42	25,199	25,366
Crossfield Cardium Unit #1	7.80	23,727	25,879
Harmattan East Unit #1	1.17	16,330	18,721
Freeman Unit #1	5.78	8,992	10,801
House Mountain Unit #4	1.68	2,385	—
Sundre Unit #1	0.21	1,431	1,674
Pembina Cardium Unit #3	1.88	1,173	1,093

NON-UNITIZED FIELDS

	WELLS Gross	WELLS Net	PRODUCTION 1968	PRODUCTION 1967
Alberta				
Pembina	21	1.88	26,115	21,976
Erskine	21	2.63	22,401	21,376
Medicine River	3	0.38	2,325	2,741
Stettler	1	0.13	1,286	1,552
Mitsue	1	0.13	1,278	49,105
House Mountain	1	0.13	413	—
Other non-unit interests	—	—	945	227
Saskatchewan				
Browning-Clarilaw	5	1.25	14,541	17,971
Midale South	1	0.40	10,037	9,578
Ontario				
Willey-Dunwich	7	0.48	2,576	3,795
TOTAL	61	7.41	1,153,084	1,070,165
Daily Average			3,151	2,932

GAS & NATURAL GAS LIQUIDS

UNITIZED FIELDS	UNIT INTEREST %	GAS PRODUCTION 1968 (MMcf.—after royalty)	GAS PRODUCTION 1967 (MMcf.—after royalty)	NGL PRODUCTION 1968 (Bbls.—after royalty)	NGL PRODUCTION 1967 (Bbls.—after royalty)
Alberta					
Carstairs Elkton Unit	10.15	2,714.156	2,478.062	150,602	114,642
Bindloss Viking Sand Gas Unit	7.97	767.064	887.473	—	—
Swan Hills-Virginia Hills Area	—	311.137	325.127	—	—
Retlaw Unit #1	14.87	216.008	253.624	4,053	2,841
Harmattan Leduc Unit #1	4.49	161.995	131.601	—	—
West Provost Viking Gas Unit	6.66	150.260	104.473	50	52
Calgary Elkton Unit #1	0.40	132.710	103.195	4,266	3,705
Calgary Crossfield Unit #1	0.02				
South Elkton Unit #1	11.74	99.726	112.343	3,048	3,462
Atlee-Buffalo-Jenner Unit	7.38	77.773	84.020	—	—
Crossfield Turner Valley Unit #1	0.09	29.245	25.030	1,580	1,187
Erskine Gas Unit #1	2.79	23.007	30.438	—	—
Sylvan Lake Gas Unit #1	0.05	4.961	5.321	—	—
Harmattan-Elkton Unit #1	2.84	—	—	52,985	53,998
Harmattan East Unit #1	0.39	—	—	7,006	7,704
Saskatchewan					
Coleville Smiley Viking Sand Gas Unit	0.28	17.786	17.238		
Hoosier Viking Sand Gas Unit	0.25	7.730	9.057		

NON-UNITIZED FIELDS	WELLS Gross	WELLS Net	GAS 1968	GAS 1967	NGL 1968	NGL 1967
Alberta						
Pendor	5	0.75	205.920	150.253		
Braeburn	2	0.55	67.659	129.547		
Other non-unit interests	—	—	44.553	—		
Total	7	1.30				
ROYALTY INTERESTS			41.697	30.170		
TOTAL			5,073.387	4,876.972	223,590	187,591
Daily Average			13.900	13.362	611	514
OIL + NATURAL GAS LIQUIDS: Daily Average					3,762	3,446

SULPHUR	PRODUCTION (Long tons) 1968	PRODUCTION (Long tons) 1967
Alberta		
Harmattan Leduc Unit #1	9,016	7,738
Carstairs-Crossfield	519	353
Calgary Units	145	91
TOTAL	9,680	8,182

STATEMENT OF INCOME

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
REVENUE:		
Production, less royalties	$4,713,879	$4,397,132
Investment and other income	22,899	10,038
	4,736,778	4,407,170
EXPENSES:		
Operating expenses	537,325	519,886
Administrative and general expenses (note 5)	150,360	152,851
Exploratory drilling and dry hole costs	361,598	244,553
Geophysical and geological expenses	580,018	565,172
Unproven property expense	276,268	264,815
Interest on long-term debt	96,075	129,399
	2,001,644	1,876,676
Income before write-offs and income taxes	2,735,134	2,530,494
Property surrendered	11,754	37,214
Depletion	830,000	789,000
Depreciation	401,135	453,867
	1,242,889	1,280,081
Income before income taxes	1,492,245	1,250,413
Income taxes (note 6)	745,000	333,295
NET INCOME FOR THE YEAR	$ 747,245	$ 917,118

STATEMENT OF DEFICIT

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
DEFICIT AT BEGINNING OF YEAR		
As previously reported	$1,214,052	$1,322,436
Adjustments of prior years		
Depreciation	270,491	97,470
Income taxes	(66,705)	
As restated	1,417,838	1,419,906
Net income for the year	747,245	917,118
	670,593	502,788
Dividends paid	917,299	915,050
DEFICIT AT END OF YEAR	$1,587,892	$1,417,838

ALMINEX

(Incorporated unde

BALANCE SHEET –

(with comparative figur

ASSETS

	1968	1967
CURRENT ASSETS:		
Cash	$ 272,061	$ 679,644
Government and other marketable securities, at cost (quoted market value 1968, $60,312; 1967, $12,575)	59,650	9,650
Accounts receivable	439,761	409,165
Inventory, at lower of cost and market	32,792	18,410
Prepaid expenses	5.134	8,150
	809,398	1,125,019
OTHER ASSETS:		
Subsidiary company (note 1)		
Shares, at cost	302	302
Advances	204,129	198,426
	204,431	198,728
Other investments, at cost	8,551	8,551
Refundable deposits	113,396	60,649
Special refundable tax	31,711	42,766
	358,089	310,694
PROPERTY, PLANT AND EQUIPMENT (note 2)	43,695,645	43,299,542
Less accumulated depletion and depreciation	10,107,708	8,876,573
	33,587,937	34,422,969
	$34,755,424	$35,858,682

Approved by the Board:

F. R. BURTON, *Director*

W. F. JAMES, *Director*

LIMITED

e laws of Canada)

ECEMBER 31, 1968

December 31, 1967)

LIABILITIES

	1968	1967
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 71,452	$ 61,027
Income taxes payable	467,666	333,295
Long-term debt due within one year	552,000	672,000
	1,091,118	1,066,322
LONG-TERM DEBT (note 3):		
Bank loans, secured	734,000	1,812,000
Less amount included in current liabilities	552,000	672,000
	182,000	1,140,000

SHAREHOLDERS' EQUITY

	1968	1967
CAPITAL STOCK (note 4):		
Authorized		
10,000,000 Shares of no par value		
Issued		
7,644,161 Shares	35,000,107	35,000,107
CONTRIBUTED SURPLUS	70,091	70,091
DEFICIT	(1,587,892)	(1,417,838)
	33,482,306	33,652,360
	$34,755,424	$35,858,682

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
ALMINEX LIMITED

We have examined the balance sheet of Alminex Limited as at December 31, 1968 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving effect to the change in depreciation policy explained in note 2.

CALGARY, Alberta,
March 4, 1969

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1968 (with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS:		
Operations		
Income before write-offs and income taxes	$2,735,134	$2,530,494
Income taxes	745,000	333,295
	1,990,134	2,197,199
Issue of shares		153,000
	1,990,134	2,350,199
APPLICATION OF FUNDS:		
Acquisition of properties (net)	29,553	210,020
Development of proven properties	145,676	203,320
Additions to plant and equipment (net)	232,628	318,600
	407,857	731,940
Decrease in long-term debt	958,000	456,000
Dividends paid	917,299	915,050
Advances to subsidiary company	5,703	15,364
Increase in other assets	41,692	7,555
	2,330,551	2,125,909
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	(340,417)	224,290
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	58,697	(165,593)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ (281,720)	$ 58,697

ALMINEX LIMITED
Notes to Financial Statements

Year ended December 31, 1968

1. Subsidiary company:

The accounts of Alminex (U.K.) Limited, a wholly-owned company participating in a joint exploration program in the North Sea, have not been consolidated in the financial statements because the subsidiary is in the exploration stage and has no profit or loss to December 31, 1968. In 1966 Alminex Limited entered into an agreement with Falconbridge Nickel Mines Limited whereby "Falconbridge" can earn a 50% share interest in the subsidiary by bearing its share of the cost of drilling two wells, or a 25% interest by bearing its share of the cost of drilling one well. As at December 31, 1968, no wells have been drilled.

2. Property, plant and equipment:

	1968			1967
	Cost	Accumulated depletion and depreciation	Net	Net
Proven properties, including development	$37,898,891	$ 7,200,000	$30,698,891	$31,380,662
Unproven properties	1,138,816		1,138,816	1,123,570
Plant and equipment	4,657,938	2,907,708	1,750,230	1,918,737
	$43,695,645	$10,107,708	$33,587,937	$34,422,969

The company's accounting practice is to transfer total property costs of an area from unproven to proven properties when production commences. Proven property costs, including the costs of drilling productive wells, are depleted on a unit of production method based on the total of estimated proven and probable reserves of oil and gas.

Property carrying charges, cost of dry holes drilled and exploration expenses are charged against income as incurred. Unproven property costs are charged to income when the properties are surrendered.

During 1968, the company reclassified certain plant and equipment, and for accounting purposes changed from one half, to maximum depreciation rates permissible under the Income Tax Act, for additions during a year. Accordingly, the deficit at December 31, 1967 has been restated from the amount previously reported to reflect a retroactive charge of $270,491 for additional depreciation, and a credit of $66,705 for decreased income taxes. Of the net adjustment of $203,786, $106,316 is applicable to 1967 and has been reflected as an increase of $173,021 in depreciation expense and a decrease of $66,705 in income taxes for the year; the balance, $97,470, is applicable to the years prior to 1967 and has been charged to deficit at January 1, 1967.

If depreciation had been provided on the same basis as in prior years, the provision would have been $272,100 for 1968 and $280,846 for 1967.

3. Long-term debt:

Credit arrangements with two banks require that the bank loans be repaid in 60 equal, consecutive, monthly instalments.

The loans are secured by registered general assignments of accounts receivable and general assignments of the company's interest in certain oil properties.

4. Capital stock:

During 1968, options were granted to officers and employees to purchase 4,500 shares at $4.45 per share in each of the five years ending December 31, 1973.

5. Administrative and general expenses:

Remuneration of officers, who are also directors, aggregated $62,175 ($55,000 in 1967). No directors' fees as such were paid in 1968 or 1967.

Investment and other income, which was deducted from administrative and general expenses in 1967, has been reclassified as revenue for comparative purposes.

6. Income taxes:

Under the provisions of the Income Tax Act property and development expenditures are deductible in arriving at taxable income. Any such expenditures not deducted in one year may be carried forward to be applied against future income. All such available costs have been deducted for income tax purposes, except approximately $51,000 which may be deducted from future income from property acquired from a predecessor company.

The Accounting and Research Committee of the Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes. The company, however, in common with many other companies in Canada, believes that tax allocation in respect of property and development costs is not appropriate, and this position is accepted by accounting authorities outside Canada.

If the tax allocation basis had been followed in respect of differences between claims for property and development costs ($175,000 in 1968 and $1,069,000 in 1967), and depletion relating to costs deductible for income tax purposes ($181,000 in 1968 and $170,000 in 1967), net income would be increased by approximately $2,000 in 1968, decreased by approximately $300,000 in 1967, and the cumulative amount of deferred credits to December 31, 1968 would have been approximately $2,473,000.

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